

Attachment G:

Affordable Housing Analysis and Recommendations

2020 Affordable Housing Nexus Study

A lot has changed since 1999 and as a part of the 2019-21 Financial Plan a core priority identified in the Housing and Homelessness Major City Goal (MCG) work scope and action plan was to complete an Affordable Housing Nexus Study to establish a rational nexus between market-rate residential development and nonresidential development and the need for affordable housing in the City as required by law. The last time a similar study was completed was in 2004. In 2020 the City hired consultant David Paul Rosen and Associates (DRA) to complete an [Affordable Housing Nexus Study](#). The Study confirmed that both market-rate residential and commercial development are inducing demand for affordable housing that is not being met by the current housing market.

The Nexus Study recommendation is based on the *maximum* justifiable Nexus fees the City could implement to meet the affordable housing demand incurred by current development. Overall, the Study recommended that the City adopt fees *less* than the maximums because fees at these high levels would affect the financial feasibility of development as well as the competitiveness of development in the City. It should be noted that while incomes increased since the Nexus Study was completed, development costs have increased more – that broadening gap would result in still-higher nexus-maximum fees. Recommendations from the Nexus Study are provided below in Table 1.

Following completion of the Nexus Study, the City began work on updating the City's Housing Element consistent with State law. On November 17, 2020, the City Council adopted the [6th Cycle Housing Element](#), which includes the City's Regional Housing Needs Allocation (RHNA)¹, and housing policies and programs for the 2020-2028 planning period. Program 2.13 in the 6th Cycle Housing Element specifically requires that City staff update the Inclusionary Housing Ordinance based on the information provided in the Nexus Study.

¹ The City's projected housing need during the Housing Element planning period is determined through the RHNA allocation process, based on projected Statewide growth in households as determined by the California Department of Housing and Community Development (HCD), and regionally allocated through the San Luis Obispo County Council of Government (SLOCOG). The total housing need for each jurisdiction is distributed among income categories and included in the Housing Element so that plans, policies, and standards may be created to help meet needs within the elements planning term. The City has a RHNA of 3,354 total housing units to plan for in the 6th cycle, with 826 allocated for the Very Low Income Category, 520 in the Low Income Category, 603 in the Moderate Income Category and 1,406 in the Above Moderate Income Category. In 2021, the City met its total allocation for "Above Moderate" housing units, issuing 472 permits for that category in 2021 and 1,411 in the last 3 years. This leaves 1,735 units needed to meet the 6th Cycle RHNA allocation, with 44% reserved for Extremely Low and Very Low Income, 22% for Low, and 34% for Moderate.

2022 Feasibility Analysis

The Nexus Study provides the connection for requiring additional affordable housing as a part of new development but did not take into account what amount of affordable housing would be feasible in a new development. In April 2021, the City hired Economic & Planning Systems, Inc. (EPS) to conduct a feasibility analysis of the City's proposed affordable housing requirements and in-lieu fees and commercial linkage fees based on the findings and recommendations included in the Nexus Study and market factors.

EPS tested the feasibility of a range of inclusionary requirements and affordable housing fee levels by preparing financial pro formas reflecting the expected costs of new development, based on the Nexus Study and supplemental market research, and comparing those costs to the revenues that could be generated given the various mixes of market-rate and affordable housing and/or fee levels. Based on this analysis, EPS recommended several revisions to the City's existing affordable housing inclusionary program for new residential and mixed-use development and introduced a nexus-based commercial linkage fee for non-residential uses based on their feasibility analysis. EPS developed a preliminary recommendation for changes to the City's Inclusionary Housing Ordinance based on their [Feasibility Analysis](#), which was presented to City Council on March 1, 2022. A summary of the EPS recommendations is provided below in Table 1.

Summary Comparison of Affordable Housing Analysis and Recommendations:

Table 1 provides a comparison between the City's current IHO, the recommendations from the Nexus Study and Feasibility Analysis.

Table 1: Comparison of the City's Current IHO, the 2020 Nexus Study's recommendation, and the recommendation based on EPS' feasibility analysis.

	Current IHO	Nexus Study Recommendation	Feasibility Analysis Recommendation
Where the IHO applies	Requirements differ within City Limits and Expansion Areas	Same requirements Citywide (no distinction between City Limits vs. Expansion Areas)	Same requirements Citywide (no distinction between City Limits vs. Expansion Areas)
Table 2A Adjustments	Applies to projects that qualify	Remove	Remove
Residential			
For Sale	<u>Within City Limits:</u> 3% low or 5% moderate income <u>Expansion Area:</u> 5% low and 10% moderate income	<u>Citywide:</u> 15% (5% at low and 10% at moderate)	<u>Citywide:</u> 10% (5% low-income units and 5% moderate income)

	Current IHO	Nexus Study Recommendation	Feasibility Analysis Recommendation
For Sale In-lieu Fee	<u>Within City Limits:</u> 5% of building valuation <u>Expansion Area:</u> 15% of building valuation	<u>Citywide:</u> Apply on a square foot basis (no specific amount recommended)	<u>Citywide:</u> \$25 per square foot
For Rent	<u>Within City Limits:</u> 3% low or 5% moderate income <u>Expansion Area:</u> 5% low and 10% moderate income	<u>Citywide:</u> 15% very low- and low-income units (5% very low and 10% at low)	<u>Citywide:</u> 6% (3% very low-income and 3% low-income)
For Rent In-lieu Fee	<u>Within City Limits:</u> 5% of building valuation <u>Expansion Area:</u> 15% of building valuation	<u>Citywide:</u> Apply on a square foot basis (no specific amount recommended). Maximum Justifiable Nexus fees: \$48.33 - \$113.99 per square foot	<u>Citywide:</u> \$20 per square foot
Commercial			
Commercial Development	<u>Within City Limits & Expansion Area:</u> 2 affordable units per acre or 5% of building valuation	<u>Citywide:</u> Maximum justifiable nexus fees: \$69-173 per square foot. Recommended Fee Range (based on other jurisdictions): <u>Other Non-residential Uses:</u> \$2 to \$5 per square foot <u>Industrial Uses:</u> \$1 to \$4 per square foot	<u>Citywide:</u> <u>Office, service, hotel, and retail uses:</u> \$5 per square foot <u>Industrial and Institutional Uses:</u> \$4 per square foot